2003

ANNUAL·REPORT

GRAND Petroleum INC.

CORPORATE PROFILE

Grand Petroleum Inc. is an emerging Calgary based oil and gas producer that evolved from the reverse takeover of RightsMarket Inc. effective December 31, 2003. Grand explores for and develops oil and natural gas in selected focus areas located in East Central Alberta where management has significant geological expertise and knowledge, thereby reducing risk through experience. Grand will continue to position itself for sustained future growth and per share value gains by building, exploiting and adding to its production base through prudent acquisitions, asset management and financial control. The common shares of Grand trade on the TSX Venture Exchange under the symbol GPP.

ANNUAL MEETING

Shareholders are cordially invited to attend the Annual and Special Meeting of Grand Petroleum Inc. to be held on Thursday, June 3, 2004 at 3:00 p.m. (Calgary time) in the Plaza Room of the Metropolitan Centre, 333 Fourth Avenue S.W., Calgary, Alberta. Shareholders who are unable to attend the Meeting are requested to complete and return the Instrument of Proxy to Olympia Trust Company at their earliest convenience.

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President's Message

AN EXCITING START

Grand Petroleum Inc. had a busy 2003, transforming from its genesis as a private company in April to its new form as a public entity by year-end. During the year as a private company, we acquired approximately 185 boe/d of production from two properties located at Consort and Galahad in East Central Alberta. The funding for these purchases came from a $0.6 million private equity placement into the private company and a $3.0 million placement into a limited partnership. Our growing staff worked hard over the last six months of the year to build production and value in these properties such that by year-end, production totaled well over 400 boe/d, and as a result, generated a significant gain in shareholder value.

CORPORATE ACTIVITIES

In the fall of 2003, we announced an agreement with RightsMarket Inc., a public technology company, whereby all of the technology assets of RightsMarket Inc. would be transferred into a new private company and then the public company would acquire our oil and gas entities. The resulting public company was Grand Petroleum Inc. Coincidental with this transaction, Grand raised $5.0 million through the issuance of flow-through shares at $1.00 per share. We welcome the former RightsMarket Inc. shareholders into our oil and gas company and thank our private investors for their early confidence and support.

Grand entered 2004 with 13.45 million shares outstanding, cash of approximately $4.9 million, production in excess of 400 boe/d, and a strong technical team ready to grow the Company. Grand Petroleum Inc. began trading on the TSX Venture Exchange on January 15, 2004 under the symbol GPP.

Please note that under standard Canadian accounting practices, the financial statements in this report reflect the income and cash flow statements of only the original private company, Grand Petroleum Ltd., and its wholly owned subsidiary Grand Petroleum Partners Management Inc., however, the Management's Discussion and Analysis section in this report also includes consolidated information that better reflects the history of our current company.

A PROVEN APPROACH

Our management team has over 100 years of combined, diverse and complementary experience in the Canadian oil and gas industry. We firmly believe that success comes from the focused execution of proven and prudent strategies. Our business plan includes:

- Growing through a combination of acquiring low price, low margin assets in areas where additional returns can be created through exploitation of the purchased assets, and developing additional reserves on or near the purchased lands.
- Reinvesting a portion of the cash flow generated from established areas into exploration and development of internally generated plays west of Alberta's fifth meridian.
- Owning and operating 100% of our production and facilities wherever possible, thereby allowing us to control our costs and capital programs.
- Achieving a balanced exposure to low and medium risk crude oil and natural gas plays.

- Maintaining a strong capital structure in order to give us the financial flexibility required to pursue strategic opportunistic acquisitions.
- Retaining dedicated management ownership. Our management and Board members currently hold approximately 26% of the Company's outstanding shares, and as a consequence, we are all strongly dedicated to creating steady, meaningful per share value growth for all of our shareholders.

THE BASE IS BUILT

Our goal in 2003 was achieved: in only eight months, we built a solid base from which to create a thriving full cycle exploration and production company. Proved plus probable reserves totaled approximately 870 mboe at year-end while exploration, development and production capital spending was $3.47 million for proved plus probable reserve additions of $6.54/boe including future capital of $2.275 million. While these results should place Grand in the top quartile of its peers in 2003, we anticipate our finding costs could rise somewhat in 2004 as we expend additional capital to build new exploration assets within our selected focus areas.

2004 FIRST QUARTER

On March 2, 2004, we acquired an additional 375 boe/d in East Central Alberta, much of which is complementary to our major production base at Galahad. Early work on these assets and ongoing drilling and exploitation at Galahad are expected to increase production in the year's second quarter to over 1,000 boe/d. We have invested in the infrastructure and team members required to successfully continue our growth throughout the remainder of this year and into the next.

FUTURE GROWTH

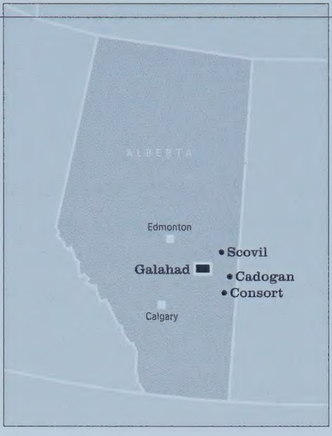
The Company entered 2004 with a clear focus on the future. Our priority now shifts strongly to execution of our proven strategy, concentrating on operations and acquisitions as well as prudent financial management. We are committed to achieving our vision: to transform Grand beyond a start-up oil and gas company to a successful, highly capable producer with stability, profitability and long-term exploration and development growth opportunities. We intend to build a strong cash flow base in East Central Alberta – ultimately doubling our current production – and use this cash flow engine to fund a portion of our exploration efforts west of Alberta's fifth meridian. We see continuing opportunity throughout the Western Canadian Sedimentary Basin for well-funded, focused companies to build a production base that creates strong shareholder returns. We look forward to reporting the results to our stakeholders as the year progresses.

On behalf of the Board of Directors,

Andrew Hogg

ANDREW L. HOGG
President & Chief Executive Officer
April 14, 2004

Operations Review

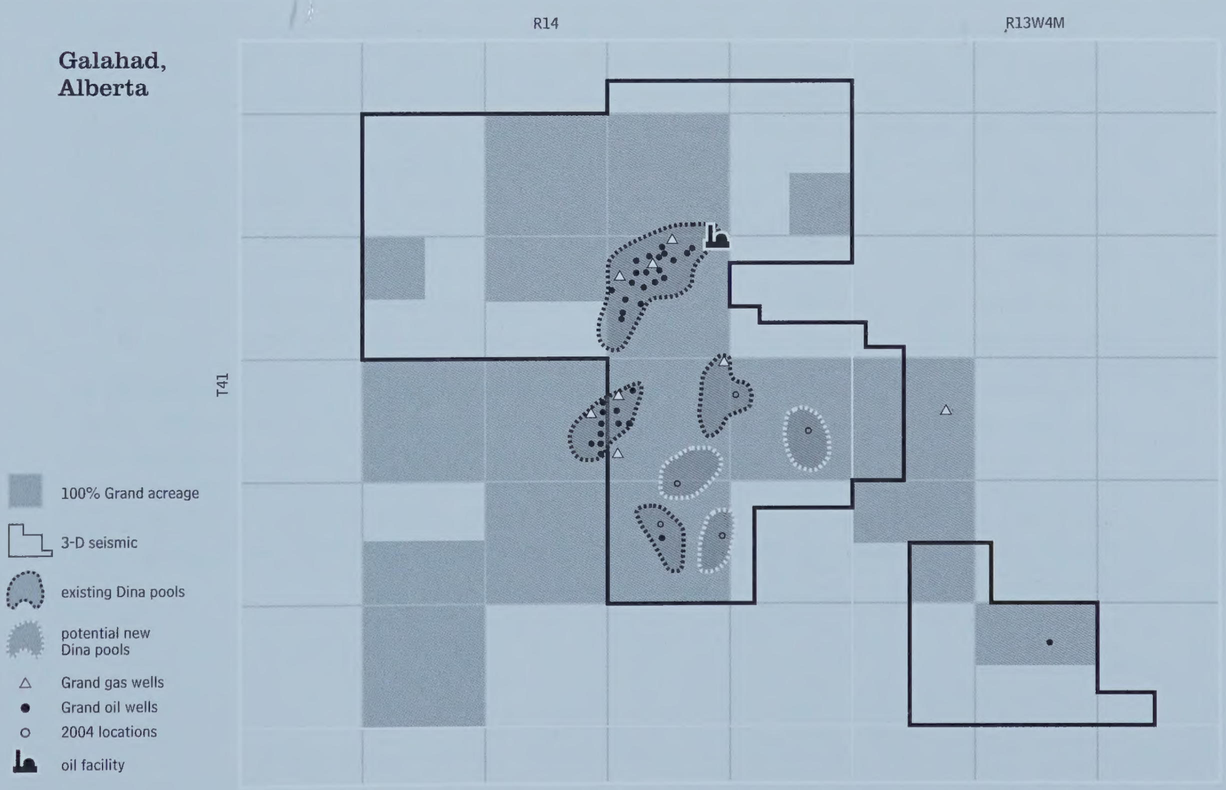


GALAHAD

The Company entered the Galahad area at the end of the third quarter of 2003 through the acquisition of seven sections of land and 165 boe/d of production. Within weeks of closing the purchase, Grand commenced a program of workovers and recompletions on producing and shut-in wells that increased production to over 320 boe/d by year-end.

Grand holds a 100% working interest and operates all of its production and facilities at Galahad. Producing zones include the Dina, Glauconite, Ostracod and Cummings Formations. The primary target for new exploration drilling is the Dina Formation, which is typified by thick sands with oil pay over a large aquifer. Discoveries such as the MM and NN Dina pools require the ability to economically handle large volumes of water as these fields rapidly rise to very high water cuts. The Company's 100% owned and operated facility at Galahad creates a strategic advantage in this area. Grand intends to pursue additional exploration plays in the area and will lever off of its 100% owned pipeline connected facility at Galahad to economically handle any discoveries made near the existing fields.

Galahad, Alberta



The Company is increasing the financial return and extending the life of these fields by lowering fixed field operating expenses, increasing production and spreading the costs over a larger production base. Costs peaked at over $18.00/boe in 2003 prior to Grand purchasing the property, however by the fourth quarter, operating costs had dropped to approximately $10.00/boe. The Company's goal is to maintain quarterly average operating costs at or below $14.00/boe throughout 2004. The success at Galahad has been a major factor in Grand achieving all-in finding costs of $7.00 per proved boe.

Work was completed on nine wells during the 2004 first quarter and a continued optimization program is planned for the summer, which is expected to keep production from the Dina pools relatively constant. While the work on the exiting pools has generated tremendous value, it is only part of the overall plan for this area. Grand has expanded its undeveloped land base at Galahad from seven sections to over 15 sections, and further acreage may be acquired depending on the results of the Company's exploration and development initiatives in the area.

The future growth of Galahad will come from new discoveries. Grand has purchased a 3-D seismic survey in the area and has shot two proprietary 3-D seismic programs: the first was a 6.9 square kilometre program shot in November 2003, the second was a larger 20.0 square kilometre program completed in February 2004. During the first quarter of 2004, two successful wells were drilled on the first seismic program. An additional two to four exploration wells are planned for the upcoming summer drilling season that could generate numerous follow-up development locations if successful. Galahad will continue to form a major focus for Grand in 2004 as the Company seeks to discover new pools and exploit existing area assets.

CONSORT

Grand entered the Consort area in May 2003 through the acquisition of a one-half section of land and 20 bbls/d from one producing oil well. During the summer of 2003, the Company successfully re-entered an offsetting well and recompleted the purchased well, and as a result, increased total production from this area to over 80 bbls/d by year-end. In March of 2004, two additional wells and one-quarter section of land were acquired near the existing property. Grand plans to drill between one and four wells on its Consort properties during 2004. Operating costs were $10.63/boe in the 2003 fourth quarter and are expected to remain below $10.00/boe during 2004.

NEW ACQUISITION

On March 2, 2004, Grand closed the acquisition of approximately 375 boe/d of production in four main properties at Galahad, Scovil, Cadogan and Consort, all located in East Central Alberta. The key properties are 100% owned and operated by Grand and are complementary with existing operations. As these properties were acquired subsequent to year-end, they were not included in the December 31, 2003 reserves report. The Company expects that efforts in the second and third quarters of 2004 will yield additional gains in production and reserves from these properties.

LAND HOLDINGS

	April 15, 2004			December 31, 2003		
	Gross	Net	Average Interest	Gross	Net	Average Interest
	acres	acres	%	acres	acres	%
Developed lands						
W4M	9,633	6,733	70	3,532	3,532	100
W5M	–	–	–	–	–	–
Total	9,633	6,733	70	3,532	3,532	100
Undeveloped lands						
W4M	9,680	9,599	99	3,786	3,786	100
W5M	2,400	2,400	100	–	–	–
Total	12,080	11,999	100	3,786	3,786	100
Total lands						
W4M	19,313	16,332	85	7,318	7,318	100
W5M	2,400	2,400	100	–	–	–
Total	21,713	18,732	86	7,318	7,318	100

RESERVES

Grand's working interest reserves were estimated by an independent petroleum engineering firm, Gilbert Laustsen Jung Associates Ltd. (GLJ), as at January 1, 2004. GLJ prepared their report in accordance with Canadian Securities Regulators National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities (NI 51-101), the results of which are outlined below:

Reserves Summary

				Net Present Value Discounted At		
	Consort	Galahad	Combined	10%	15%	20%
(working interest reserves)				$000s	$000s	$000s
Proved						
Light/medium oil (mstb)	–	384	384	–	–	–
Heavy oil* (mstb)	94	–	94	–	–	–
Natural gas (mmcf)	28	656	684	–	–	–
NGLs (mstb)	–	15	15	–	–	–
Total (mboe)	99	509	608	6,205	6,060	5,857
Proved plus probable						
Light/medium oil (mstb)	–	448	448	–	–	–
Heavy oil* (mstb)	256	–	256	–	–	–
Natural gas (mmcf)	85	795	880	–	–	–
NGLs (mstb)	–	18	18	–	–	–
Total (mboe)	270	599	870	7,177	6,927	6,587

* Consort reserves have been classified as heavy oil, but have an average specific gravity of approximately 25°API.

** This reserves summary does not include assets purchased on March 2, 2004.

RESERVES RECONCILIATION

GPL was incorporated in April 2003 and began with no reserves. The following reconciliation table describes the reserves added in 2003, however does not include the acquisition that closed on March 2, 2004:

	Crude Oil and NGLs			Natural Gas			Total		
	Proved	Probable	Total	Proved	Probable	Total	Proved	Probable	Total
	mbbls	mbbls	mbbls	mmcf	mmcf	mmcf	mboe	mboe	mboe
April 23, 2003	–	–	–	–	–	–	–	–	–
Discoveries & purchases	502	229	731	684	196	880	617	262	879
Revisions to prior estimates	–	–	–	–	–	–	–	–	–
Dispositions	–	–	–	–	–	–	–	–	–
Production	(9)	–	(9)	–	–	–	(9)	–	(9)
January 1, 2004	493	229	722	684	196	880	608	262	870

FINDING AND DEVELOPMENT COSTS

During 2003, Grand purchased two properties at Consort and Galahad for a total production base of 185 boe/d at a combined purchase price of $2.275 million. By year-end, these properties were producing a total of 400 boe/d. The growth in production was due to a concerted workover program on both properties with the majority of expenses incurred at Galahad. In total during 2003, Grand spent $3.469 million on capital programs and the amalgamation with RightsMarket while adding 617 mboe of proved reserves and 879 mboe of proved plus probable reserves. After including the independent engineers' forecast for future development capital, the all-in finding, development and acquisition costs for 2003 were $7.00/boe for proved reserves and $6.54/boe for proved plus probable reserves.

Reserve additions	
Proved	
Oil and NGLs (mbbls)	502
Natural gas (mmcf)	684
Total (mboe)	617
Proved plus probable	
Oil and NGLs (mbbls)	731
Natural gas (mmcf)	880
Total (mboe)	879
Capital expenditures	
2003 total capital expenditures	$ 3,469,143
Future capital – proved reserves	850,000
Total capital – proved reserves	4,319,143
Future capital – proved plus probable reserves	2,275,000
Total capital – proved plus probable reserves	$ 5,744,143
All-in finding, development and acquisition costs	
Proved ($/boe)	$ 7.00
Proved plus probable ($/boe)	$ 6.54

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management and is a review of the financial results of the Company based on accounting principles generally accepted in Canada. Its focus is primarily on the financial performance for the combined operations of Grand Petroleum Ltd., Grand Petroleum Limited Partnership and Grand Petroleum Inc. for the three months ended December 31, 2003 and the operations of Grand Petroleum Ltd. for the eight months ended December 31, 2003, and should be read in conjunction with the audited financials statements and accompanying notes. This Management's Discussion and Analysis was prepared as of March 31, 2004. Per barrel of oil equivalent (boe) amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil (6:1).

This discussion contains forward-looking statements. Forward-looking statements address future events and conditions, and are based on current expectations. Because of the nature of forward-looking statements, they involve inherent risks and uncertainties, and therefore actual results could differ materially from those currently anticipated.

HIGHLIGHTS

- **April 2003** – Grand Petroleum Ltd. ("GPL") was incorporated as a private company and raised $600,000. Proceeds were used to acquire the Consort properties, which were at that time producing 20 bbls/d.
- **August 2003** – Consort properties were reworked, thereby increasing production to approximately 80 bbls/d.
- **September 2003** – The Grand Petroleum Limited Partnership (the "Partnership") was formed and sold 300 units for total proceeds of $3.0 million. Funds were used to acquire the Galahad property, which was producing 165 bbls/d at that time.
- **October/November 2003** – Approximately $800,000 was allocated to a workover and recompletion program at Galahad, resulting in an additional 155 boe/d of production by year-end.
- **December 2003** – GPL and the Partnership entered into a plan of arrangement with RightsMarket Inc. ("RightsMarket") whereby, among other things, all of the assets of RightsMarket were transferred to RightsMarket Ltd. and the company was renamed Grand Petroleum Inc. ("Grand"). Immediately after the arrangement, Grand acquired all of the issued and outstanding shares of GPL and all of the issued and outstanding units of the Partnership, and effective January 1, 2004, the companies were amalgamated.
- **March 2004** – Grand purchased properties in southeastern Alberta for a total consideration of $3.8 million, adding an additional 375 boe/d. March production, after giving effect to the acquisition, averaged approximately 750 boe/d.

Due to the nature of the acquisitions, the financial statements present the statements of operations and deficit and of cash flows for the eight months ended December 31, 2003 for GPL and Grand Petroleum Partners Management Inc. only, with the balance sheet including the business combinations as at December 31, 2003. In order to provide a more relevant examination of the operations of Grand, a detailed financial analysis and discussion based on the operations of GPL (as shown in the statements) and an analysis of GPL and the Partnership combined for the three months ended December 31, 2003 is presented below.

DETAILED FINANCIAL ANALYSIS

Production

Production increased from 20 boe/d in May to an average 395 boe/d in the fourth quarter of 2003.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
Oil (bbls/d)	36	**281**
Natural gas (mcf/d)	–	**632**
NGLs (bbls/d)	–	**9**
Total (boe/d)	36	**395**

During the first quarter of 2004, Grand increased production an additional 375 boe/d through a property acquisition in southeastern Alberta, and as a result, expects to exceed 900 boe/d in the second quarter. The Company should record significantly improved year-over-year production due to the March acquisition, success from its ongoing drilling and recompletion program and the tie-in of several wells in the Galahad area.

Petroleum and Natural Gas Sales

Revenue from petroleum and natural gas sales totaled $1,352,826 for the eight-month period with $299,241 and $1,053,585 generated from the Consort and Galahad properties, respectively. Fourth quarter sales totaled $1,239,406, the majority of which was generated from Galahad.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
Oil	$ 299,241	**$ 865,340**
Natural gas	–	**347,845**
NGLs	–	**26,221**
Total	$ 299,241	**$ 1,239,406**

Average Prices

For the eight months ended December 31, 2003, oil prices averaged $33.58/bbl, natural gas prices averaged $5.98/mcf and NGL prices averaged $32.61/bbl. Fourth quarter prices averaged $33.52, $5.98 and $32.61, respectively. Transportation and marketing costs for the Company's natural gas averaged approximately $0.26/mcf for the three-month period.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
Oil ($/bbl)	$ 33.65	**$ 33.52**
Natural gas ($/mcf)	–	**5.98**
NGLs ($/bbl)	–	**32.61**
Total ($/boe)	$ 33.65	**$ 34.13**

Royalties

Royalty expenses for the eight-month period totaled $234,260 with $74,019 and $160,241 in expenses generated from the Consort and Galahad properties, respectively. For the three-month period, royalties totaled $206,803.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
Crown	$ –	$ 9,844
Freehold	74,019	157,168
GORR	–	39,791
Total	$ 74,019	$ 206,803

The total average royalty rate for Grand for the 2003 eight-month period was 17.3% and 16.7% for the three-month period. Although the average royalty rate is expected to decrease in 2004 since a large portion of the March property acquisition is royalty free, total royalties paid during the year will increase due to higher production volumes.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
	%	%
Crown	–	0.8
Freehold	24.7	12.7
GORR	–	3.2
Average royalty rate	24.7	16.7

Production Expenses

Production expenses for the eight months ended December 31, 2003 totaled $377,740 with $81,070 and $296,670 incurred at Consort and Galahad, respectively. Production costs averaged $9.12/boe at Consort and $9.64/boe at Galahad. For the three-month period ending December 31, 2003, production expenses were $364,876 or $10.05/boe.

	GPL	Combined
	December 31, 2003 (8 months)	December 31, 2003 (3 months)
Production expense (gross)	$ 81,070	$ 397,275
Overhead recoveries – operating	–	(24,000)
Water disposal income	–	(8,399)
Total	$ 81,070	$ 364,876

In 2004, Grand expects production expenses to increase as production volumes improve; however, it anticipates net production expense per boe to decrease as new wells are brought on-stream in areas with fixed costs. Several workovers on newly acquired properties were completed in 2003 and therefore charged to operating expenses, and although it is expected that the same amount will be allocated to workovers in 2004, the rate per boe should be lower due to increased daily production plus the fact that the Company will be reporting on a full year of activity rather than only eight months as was reported in 2003.

Operating Netbacks

Average operating netbacks for Grand for the eight months ended December 31, 2003 were $18.49/boe and $18.38/boe for the three-month period. The Company expects its 2004 netbacks to increase as a result of higher oil prices, production growth, lower overall royalty rates and decreased operating costs per boe.

	GPL December 31, 2003 (8 months)	Combined December 31, 2003 (3 months)
Sales price ($/boe)	$ 33.65	**$ 34.13**
Royalties ($/boe)	(8.32)	**(5.70)**
Production expense ($/boe)	(9.12)	**(10.05)**
Operating netback ($/boe)	$ 16.21	**$ 18.38**

General and Administrative Expenses

Net general and administrative expense for the eight-month period totaled $179,542 after deducting capital overhead recoveries of $41,661, capitalized general and administrative expense of $145,989 and interest income of $3,313. General and administrative expenses were $4.53/boe for the eight-month period, which was relatively high due to low production volumes from May to October. For the three-month period, general and administrative costs totaled $124,208 or $3.42/boe. In 2004, Grand expects general and administrative expenses to average approximately $3.50/boe.

	GPL December 31, 2003 (8 months)	Combined December 31, 2003 (3 months)
General and administrative expense	$ 297,125	**$ 268,562**
Overhead recoveries – capital	(6,878)	**(41,661)**
Interest income	(773)	**(2,906)**
Capitalized general and administrative expense	(127,280)	**(99,787)**
Total	$ 162,194	**$ 124,208**
Total – net ($/boe)	$ 18.24	$ **3.42**

Depletion, Depreciation and Site Restoration

Depletion, depreciation and site restoration expense for the eight months ended December 31, 2003 was $70,573 or $7.94/boe.

Income Taxes

During the eight-month period, Grand recorded income taxes of $nil. At December 31, 2003, Grand renounced $4.0 million of Canadian exploration expense and $1.0 million of Canadian development expense to shareholders through a flow-through share issue. At December 31, 2003, the Company's tax pools totaled $11.1 million, of which $7.2 million were non-capital losses.

Net Earnings and Cash Flow

For the eight-month period ended December 31, 2003, GPL recorded a net loss of $(88,615) or $(0.04) per share and cash flow from operations of $(18,042) or $(0.01) per share due primarily to start-up costs. For the three-month period ended December 31, 2003, Grand's net earnings totaled $314,900 or $0.08 per share while cash flow from operations was $633,519 or $0.16 per share. The Company expects net earnings and cash flow to significantly increase in 2004 due to production growth through drilling and acquisitions, improved commodity prices and a full 12 months of operations.

Capital Expenditures

For the eight months ended December 31, 2003, the Company's exploration and development capital expenditures totaled $3,469,143, including the two business acquisitions, with finding and development costs of $7.00 per proved boe. The following table outlines the Company's capital expenditures for the eight-month period ended December 31, 2003:

	December 31, 2003
Land and property acquisitions – GPL	$ 248,551
Business combination – RightsMarket	65,725
Acquisition of Partnership assets	2,754,280
Drilling, completions and equipping	242,519
Facilities and pipelines	21,270
Administrative assets (including capitalized G&A)	136,798
Total	$ 3,469,143

On April 27, 2003, GPL closed the acquisition of properties in the Consort area for a total net purchase price of $245,553.

On September 29, 2003, the Partnership closed the acquisition of properties in the Galahad area for a total purchase price of $2,065,893, subject to further price adjustments.

On December 31, 2003, Grand acquired all of the issued and outstanding shares of GPL and all of the issued and outstanding units of the Partnership in a reverse takeover, as further disclosed in note 3 to the financial statements. The transaction was accounted for by the purchase method based on fair values.

The Company anticipates spending approximately $10 to $20 million on its 2004 capital expenditures program that will be funded using cash flow and bank debt. The actual expenditure amount will depend on a variety of factors including initial success in the planned drilling programs, availability of property acquisitions, cash flow and other sources of financing, including, but not limited to, equity offerings.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003, Grand had cash of $4,923,460 and a working capital deficiency of $431,705, excluding cash. In addition, Grand had contractual obligations as summarized in the following table:

				Payments Due By Period	
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	After 5 Years
Office rent	$ 589,486	$ 132,373	$ 389,782	$ 67,331	$ –

During the eight-month period, GPL closed private placements as outlined below:

	Date of Issue	Price Per Share of Issue	Shares Issued	Gross Proceeds
Common shares	May 2003	$ 1.00	455,000	$ 455,000
Common shares	Jul. 2003	1.00	60,000	60,000
Common shares	Aug. 2003	1.00	10,000	10,000
Common shares	Sep. 2003	1.00	10,000	10,000
Common shares Exercise of options	Dec. 2003	1.00	65,000	65,000
Total			600,000	$ 600,000

The Partnership closed one private placement as follows:

	Date of Issue	Price Per Share of Issue	Shares Issued	Gross Proceeds
Common shares (300 Partnership units)	Sep. 2003	$ 1.00	3,000,000	$3,000,000
Total			3,000,000	$3,000,000

Concurrent with the closing of the arrangement, Grand closed two private placements as outlined below:

	Date of Issue	Price Per Share of Issue	Shares Issued	Gross Proceeds
Common shares (flow-through)	Dec. 2003	$ 1.00	5,000,000	$5,000,000
Common shares	Dec. 2003	0.6536	764,994	500,000
Total			5,764,994	$5,500,000

The net proceeds of the first four GPL issues were used to fund the property acquisition at Consort. The net proceeds of the Partnership issue were used to fund the property acquisition at Galahad. The proceeds of the common share issue in RightsMarket were paid to RightsMarket as part of the plan of arrangement, and the proceeds of the flow-through common share issue will be used to finance a portion of the Company's 2004 capital expenditures program.

As at December 31, 2003, Grand had a revolving demand loan of $2.0 million and an acquisition and development loan of an additional $2.0 million, neither of which had been drawn on. Also at December 31, 2003, Grand had a $25,000 letter of credit outstanding with its gas transportation

provider. The facilities are subject to a semi-annual review that includes a borrowing base redetermination (including any completed acquisitions) and a full assessment of the Company's financial position and operations. The next review is scheduled to take place before May 1, 2004. Based on the property acquisition that closed in March 2004, the Company expects the bank to increase the amount of its revolving demand loan.

Share Capital

Grand is authorized to issue an unlimited number of common shares as well as first preferred shares and second preferred shares, all without nominal or par value. To date, no preferred shares have been issued. The Company's share capital at December 31, 2003 is outlined below:

	Shares	Amount
Common shares		
Shares issued to GPL shareholders Note 2	2,294,983	$ 600,000
Shares held by RightsMarket shareholders	802,583	991,552
Flow-though shares issued by RightsMarket, net of tax effect	5,000,000	3,250,000
Shares issued for cash	764,994	500,000
Shares issued on acquisition of GPLP	4,589,963	3,000,000
	13,452,523	8,341,552
Share issue costs	–	(419,812)
December 31, 2003	**13,452,523**	**$ 7,921,740**

BUSINESS CONDITIONS AND RISK

Grand is exposed to numerous risks and uncertainties associated with oil and gas exploration and development. These business risks are operational and financial in nature.

The Company faces risks that could affect the timing and results of its operations. Delays in the completion of projects due to mechanical or technical failure, equipment shortages or unsuccessful drilling results could adversely affect Grand's abilities to reach its forecasts. The Company has mitigated some of these risks by operating substantially all of its production and will continue to operate properties whenever possible. Operational control allows the Company to manage costs, timing and sales of production. Grand also attempts to control operational risks by hiring experienced personnel and planning operations in areas where its staff has experience and expertise.

Estimates of economically recoverable reserves and the future net cash flow they will generate are based on a number of factors and assumptions, and may vary from actual results due to commodity prices, drilling success and future operating costs.

The Company faces financial risks such as commodity prices, interest rates and the Canadian/US dollar exchange rate. Grand mitigates the effect of commodity prices by operating substantially all of its production in order to control operating costs and to determine whether or not to shut-in uneconomic wells.

NEW ACCOUNTING STANDARDS FOR 2004

Depletion and Asset Retirement Obligations

Grand has adopted the new NI 51-101 requirements for reserves effective December 31, 2003 and will adopt the new Asset Retirement Obligations calculation beginning January 1, 2004.

Stock-Based Compensation and Other Stock-Based Payments

Effective January 1, 2004, the fair value of stock options will be recognized as an expense in the financial statements.

Continuous Disclosure Obligations

Effective March 31, 2004, the Company and all reporting issuers in Canada will be subject to new disclosure requirements as per National Instrument 51-102 "Continuous Disclosure Obligations". Under this new instrument, it will no longer be mandatory for the Company to mail annual and interim financial statements and management's discussions and analysis to shareholders, but rather, these documents will be provided on an "as requested" basis.

OUTLOOK

The first eight months of operations along with the property purchase in March 2004 have given Grand a strong production base from which to grow. The Company has completed drilling the first two wells in its 2004 drilling program and has several operations planned to enhance production in its core areas. Grand will continue to pursue property acquisitions as a way to increase production and enhance shareholder value.

Management's Report

To the Shareholders of Grand Petroleum Inc.

The accompanying consolidated financial statements present the statements of operations and deficit and of cash flows from Grand Petroleum Ltd. (GPL), and its wholly owned subsidiary Grand Petroleum Partners Management Inc., and the balance sheet of GPL consolidated including the purchase equations from the Grand Petroleum Limited Partnership and RightsMarket Inc. The financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with Canadian generally accepted accounting principles and has made significant accounting judgements and estimates as required. Management has ensured that financial information contained elsewhere in this report is consistent with the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and ensuring management meets their financial reporting responsibilities.

Andrew Hogg

ANDREW L. HOGG
President & Chief Executive Officer
Calgary, Canada
April 1, 2004

B Galonski

BRENDA GALONSKI
Controller

Auditors' Report

To the Shareholders of Grand Petroleum Inc.

We have audited the consolidated balance sheet of Grand Petroleum Inc. as at December 31, 2003 and the consolidated statements of operations and deficit and cash flows for the eight-month period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 1, 2004

Consolidated Balance Sheet

As at December 31,	2003
ASSETS	
Current assets	
Cash	$ 4,923,460
Accounts receivable	927,351
Prepaids and deposits	58,304
	5,909,115
Property, plant and equipment, net Note 4	3,402,970
	$ 9,312,085
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable and accrued liabilities	$ 1,417,360
Provision for site restoration	61,600
	1,478,960
Shareholders' equity	
Share capital Note 6	7,921,740
Deficit	(88,615)
	7,833,125
	$ 9,312,085

See accompanying notes to the consolidated financial statements.

On behalf of the Board of Directors,

JOHN A. BRUSSA
Director

ANDREW L. HOGG
Director

Consolidated Statement of Operations and Deficit

Eight months ended December 31,	2003
Revenue	
Petroleum and natural gas sales	$ 299,241
Royalties expense, net of Alberta Royalty Tax Credit	(74,019)
	225,222
Expenses	
Production	81,070
General and administrative	162,194
Depletion, depreciation and amortization	66,173
Provision for site restoration	4,400
	313,837
Net loss for the period	(88,615)
Deficit, beginning of period	–
Deficit, end of period	$ (88,615)
Loss per share	
Basic and diluted	$ (0.04)

See accompanying notes to the consolidated financial statements.

Consolidated Statement of Cash Flows

Eight months ended December 31,	2003
Cash provided by (used in):	
Operations	
Net loss for the period	$ (88,615)
Add items not affecting cash	
Depletion, depreciation and amortization	66,173
Provision for site restoration	4,400
Funds from operations	(18,042)
Change in non-cash working capital	
Accounts receivable	(200,807)
Prepaid expenses	(52,867)
Accounts payable	222,525
Net change in non-cash working capital	(31,149)
	(49,191)
Investing	
Expenditures on property, plant and equipment	(649,138)
Cash acquired on Business Combinations Note 3	5,441,601
	4,792,463
Financing	
Net issue of capital stock for cash	600,000
Share issue costs Note 6(b)	(419,812)
	180,188
Increase in cash	4,923,460
Cash, beginning of period	–
Cash, end of period	$ 4,923,460

See accompanying notes to the consolidated financial statements.

Notes to Consolidated Financial Statements

Eight months ended December 31, 2003

1. Nature of Operations

Grand Petroleum Ltd. ("GPL"), a private oil and gas company, was formed on April 23, 2003 under the laws of the Province of Alberta. On May 1, 2003, GPL commenced operations with the purchase of a property in the Consort area. In September of 2003, Grand Petroleum Limited Partnership (the "Partnership") was formed and purchased property in the Galahad area. On December 31, 2003, GPL merged with RightsMarket Inc. ("RightsMarket"), a public company, and continued as Grand Petroleum Inc. ("Grand" or the "Company"), a public company. The Company then acquired all of the issued and outstanding units of the Partnership. At January 1, 2004, the companies were amalgamated.

2. Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of GPL, its wholly owned subsidiary, Grand Petroleum Partners Management Inc. ("GPPM"), the purchase equation for the Partnership and the purchase equation for RightsMarket. The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reported period. Actual results may differ from these statements.

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of GPL and its wholly owned subsidiary GPPM, the purchase equation for the Partnership and the purchase equation for RightsMarket.

(b) PROPERTY, PLANT AND EQUIPMENT

The Company follows the full cost method of accounting for exploration and development expenditures whereby all costs relating to the acquisition of, exploration for and development of oil and gas reserves are capitalized. Such costs include lease acquisition, geological and geophysical, lease rentals on undeveloped properties, drilling both productive and non-productive wells, production equipment and overhead charges directly related to acquisition, exploration and development activities. Proceeds received from disposals of properties and equipment are credited against capitalized costs unless the disposal would alter the rate of depletion and depreciation by more than 20%, in which case a gain or loss on disposal is recorded.

All costs of acquisition, exploration and development of oil and gas reserves, associated tangible plant and equipment costs (net of salvage value) and estimated costs of future development of proven reserves are depleted and depreciated by the unit-of-production method based on estimated gross proved reserves as determined by independent engineers. Oil and gas reserves are converted to equivalent units using their estimated relative energy content of six thousand cubic feet of gas to one barrel of oil.

Depreciation of property, plant and equipment not related to oil and gas properties is provided using the diminishing balance method at rates between 20% and 30%.

Costs of unproved properties are initially excluded from oil and gas properties for the purpose of calculating depletion. These unproved properties are assessed periodically to ascertain whether impairment has occurred. When proved reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The Company carries its petroleum and natural gas properties at the lower of the capitalized cost and net recoverable value (the "ceiling test"). The net capitalized cost of each of the Company's assets is calculated as the net book value of the related assets less the accumulated provision for future income taxes and future site restoration. Net recoverable value is limited to the sum of future net revenues from proved properties and the cost of unproved properties (net of provisions for impairment) less estimated future financing and administrative expenses and income tax. Future net revenues are based on prices and costs prevailing at year-end.

2. Accounting Policies (continued)

(c) INTEREST IN JOINT VENTURES

Substantially all of the Company's oil and gas exploration and development activities are conducted jointly with others, and accordingly, the financial statements reflect only the Company's proportionate interest in such activities.

(d) USE OF ACCOUNTING ESTIMATES

The amounts recorded for depletion, depreciation and amortization of oil and natural gas properties and equipment and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test is based on estimates of proved reserves, production rates, oil and gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

(e) CASH AND CASH EQUIVALENTS

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

(f) FLOW-THROUGH SHARES

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. Future tax liabilities and share capital are adjusted by the estimated cost of the tax deductions when the expenditures are renounced.

(g) PER SHARE AMOUNTS

Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts are calculated based on the treasury-stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period.

(h) FUTURE SITE RESTORATION

Estimated future site restoration costs for oil and gas properties are provided for over the life of the proved reserves on a unit-of-production basis. Costs are based on the Company's engineering estimates considering current regulations, costs, technology and industry standards. Actual site restoration expenditures are charged against the accumulated future site restoration provision.

(i) INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any differences between the accounting and the income tax basis of an asset or liability using income tax rates substantially enacted on the balance sheet date. The effect of a change in income tax rates on the future income tax assets and liabilities is recognized in income in the period of the change.

(j) STOCK-BASED COMPENSATION PLAN

The Company accounts for its stock-based compensation programs using the fair value method. Under this method, compensation expense related to these programs is recorded in the consolidated statement of operations over the vesting period. No stock options were outstanding at December 31, 2003.

3. Business Combinations

Effective December 31, 2003, RightsMarket acquired all of the issued and outstanding shares of GPL. As consideration, RightsMarket issued 2,294,983 common shares, being 26% of the then outstanding shares, to the shareholders of GPL. The board of directors and the management of RightsMarket were replaced with the board of directors and management of GPL. Although RightsMarket is the surviving legal entity, the transaction has been accounted for as a reverse takeover for accounting purposes, with GPL being deemed to have acquired RightsMarket. This transaction was accounted for by the purchase method, based on fair values as follows:

3. Business Combinations (continued)

Net assets acquired		
Cash	$	5,075,000
Current assets		500,000
Capital assets		65,725
Accounts payable and accrued liabilities		(899,173)
		4,741,552
Common shares of RightsMarket issued		991,552
Flow-through shares issued by RightsMarket, net of tax effect		3,250,000
Shares issued for cash		500,000
Total consideration	$	4,741,552

RightsMarket has $7,500,000 of tax pools that have not been considered to be more likely than not used, and therefore, the benefit was not recognized in this purchase equation.

Effective December 31, 2003, Grand acquired all of the issued and outstanding units of the Partnership. As consideration, the Company issued 4,589,963 common shares. The transaction was accounted for by the purchase method, based on fair values as follows:

Net assets acquired		
Cash	$	366,601
Current assets		731,981
Capital assets		2,754,280
Accounts payable and accrued liabilities		(795,662)
Provision for future site restoration and abandonment		(57,200)
	$	3,000,000
Common shares issued		3,000,000

The Partnership has $72,000 of tax pools that have not been considered to be more likely than not used, and therefore, the benefit was not recognized in this purchase equation.

4. Property, Plant and Equipment

Oil and gas properties	$	3,332,345
Other		136,798
		3,469,143
Less accumulated depletion and depreciation		(66,173)
	$	3,402,970

During the fiscal period, $127,280 of general and administrative expenses relating to exploration and development expenses were capitalized.

At December 31, 2003, the estimated future site restoration costs to be accrued over the life of the remaining proved reserves were $4,400 for GPL and $61,600 for the combined companies.

5. Bank Loan

The Company has a financing commitment with a Canadian chartered bank for a revolving demand credit facility in the amount of $2,000,000. The facility bears interest at bank prime rate plus 0.75 payable monthly and is secured by a $15,000,000 demand debenture and a general security agreement. The Company also has available a $2,000,000 non-revolving acquisition development demand loan. This facility bears interest at bank prime rate plus 1.0 with a drawdown rate of 0.25 on the amount drawn for acquisitions and 0.50 on development expenditures.

The facilities are subject to a semi-annual review. The next review is to be undertaken before May 1, 2004. This review includes a borrowing base re-determination, including any completed acquisitions, and a full assessment of the Company s financial position and operations.

6. Share Capital

(a) AUTHORIZED

Unlimited number of common shares without par value
Unlimited number of first preferred shares, of which none have been issued
Unlimited number of second preferred shares, of which none have been issued

(b) ISSUED AND OUTSTANDING

	Shares	Amount
Common shares		
Shares issued to GPL shareholders	2,294,983	$ 600,000
Shares held by RightsMarket shareholders	802,583	991,552
Flow-though shares issued by RightsMarket, net of tax effect	5,000,000	3,250,000
Shares issued for cash	764,994	500,000
Shares issued on acquisition of GPLP	4,589,963	3,000,000
	13,452,523	8,341,552
Share issue costs	–	(419,812)
December 31, 2003	**13,452,523**	**$ 7,921,740**

(c) FLOW-THROUGH SHARES

Pursuant to the December 31, 2003 flow-through share offering, the Company renounced $5,000,000 of qualifying expenditures effective December 31, 2003.

(d) PER SHARE AMOUNTS

Per share amounts have been calculated based on the weighted average number of shares outstanding. The weighted average shares outstanding for 2003 was 2,340,524.

(e) STOCK-BASED COMPENSATION

The Company has adopted a share option plan (Plan) for directors, senior officers, employees and key consultants of the Company and any subsidiary. Options granted pursuant to the Plan will not exceed a term of five years, and are granted at an option price and on other terms that the directors determine are necessary to achieve the goal of the Plan and in accordance with regulatory policies. Options vest one-third immediately, one-third one year later, and one-third one year after that. At December 31, 2003, no stock options were granted or outstanding.

7. Income Taxes

(a) EXPECTED TAX RATE

The provision for income taxes for continuing operations reflects an effective tax rate that differs from the Federal and Provincial statutory tax rates. The main differences are as follows:

Earnings before taxes	$ (88,615)
Corporate income tax rate	40.62%
	(35,995)
Resource allowance	3,678
Valuation allowance	30,163
Change in enacted tax rates	1,399
Other	755
Future tax expense (reduction)	$ –

7. Income Taxes (continued)

(b) NET FUTURE TAX ASSET

The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2003 are presented below:

Future tax assets:	
Non-capital losses	$ 2,673,304
Share issue costs and other	234,508
	2,907,812
Future tax liability:	
Capital assets, differences between net book value and undepreciated capital cost	(115,021)
	2,792,791
Less valuation allowance	(2,792,791)
Net future tax asset	$ –

The Company has non-capital losses of $7,200,000 expiring at various times from 2004 to 2010.

8. Financial Instruments

The Company's financial instruments recognized in the consolidated balance sheet consist of accounts receivable, accounts payable and accrued liabilities.

The estimated fair values of financial instruments have been determined based on the Company's assessment of available market information and appropriate valuation methodologies; however, these estimates may not be necessarily indicative of the amounts that could be realized or settled in a current market transaction.

The carrying value of accounts receivable, accounts payable and accrued liabilities approximate their fair market value.

9. Subsequent Events

(a) STOCK OPTIONS

Subsequent to year-end, the Company issued 1,085,000 stock options at an exercise price varying from $1.00 to $2.00 per option. These options have a five-year life and vest over three years.

(b) PROPERTY ACQUISITION

On March 2, 2004, the Company purchased oil and gas assets for consideration of approximately $3,800,000. The purchase includes two properties with a price of $1,244,000 that are subject to the other party's rights of first refusal.

BOARD OF DIRECTORS

John A. Brussa (1)(2)(3)
Partner
Burnet, Duckworth & Palmer LLP

Paul Colborne (1)(2)
President & Chief Executive Officer
Starpoint Energy Ltd.

Fred C. Coles (2)(3)
President
Menehune Resources Ltd.

Andrew L. Hogg
President & Chief Executive Officer
Grand Petroleum Inc.

(1) Audit Committee Member
(2) Reserves Committee Member
(3) Compensation Committee Member

OFFICERS

Andrew L. Hogg
President & Chief Executive Officer

Kevin Wright
Vice President, Engineering

Stephen Lamb
Vice President, Exploration

Brenda Galonski
Controller

SENIOR MANAGEMENT & STAFF

Glen Glass
Manager, Operations

Frank Cortese
Land Manager

Byron Cooper
Senior Geologist

Bert Gracey
Operations Superintendent

Judy Leverington
Senior Accountant

Elaina Godfrey
Office Manager

HEAD OFFICE

Suite 1450
407 – 2nd Street S.W.
Calgary, Alberta
T2P 2Y3
Phone: (403) 231-8400
Fax: (403) 231-8401
Website: www.grandpetroleum.com

AUDITORS

KPMG LLP

BANKER

National Bank of Canada

EVALUATION ENGINEERS

Gilbert Laustsen Jung Associates Ltd.

LEGAL COUNSEL

Burnet, Duckworth & Palmer LLP

TRANSFER AGENT

Olympia Trust Company

STOCK EXCHANGE LISTING

TSX Venture Exchange
Trading Symbol: GPP

ABBREVIATIONS

3-D	three dimensional
bbl	barrel
bbl/d	barrels per day
boe	barrels of oil equivalent
boe/d	barrels of oil equivalent per day
mbbls	thousand barrels
mboe	thousand barrels of oil equivalent
mcf	thousand cubic feet
mcf/d	thousand cubic feet per day
mmcf	million cubic feet
mstb	thousand stock tank barrels
NGLs	natural gas liquids

CONVERSION OF UNITS

1.0 acre	=	0.40 hectares
2.5 acres	=	1.0 hectare
1.0 bbl	=	0.159 cubic metres
6.29 bbls	=	1.0 cubic metre
1.0 foot	=	0.3048 metres
3.281 feet	=	1.0 metre
1.0 mcf	=	28.2 cubic metres
0.035 mcf	=	1.0 cubic metre
1.0 mile	=	1.61 kilometres
0.62 miles	=	1.0 kilometre

Natural gas is equated to oil on the basis of 6 mcf = 1 boe

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